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JAPAN'S FOREIGN AID POLICY: AN ANNUAL UPDATE

Summary

At the tenth summit meeting of industrialized nations in London earlier this summer, Prime Minister Yasuhiro Nakasone called for a concerted effort to support the economic development efforts of the debt-ridden developing world. His active role on this issue, plus Tokyo's dramatic increase in official development assistance (ODA) during a period of stringent budget guidelines, at first glance suggest a dramatic swing in Japan's foreign aid policy. But Japanese sources emphasize that developments in recent years in terms of disbursements, quality of aid, regional distribution, and cooperative efforts with other major donors actually reflect the evolution and fine-tuning of its aid efforts. Moreover, it is an evolution that is best viewed within the context of policy changes in the donor community in general, aimed at expanding assistance and donor collaboration in the developing world.

Tokyo views its two consecutive aid-doubling plans (1977-80 and 1981-85) as commitments to fulfill its international responsibility, and although it may be constrained in attaining the 1985 goal in the next two years by budget limitations, Tokyo will nevertheless make its best effort to expand ODA to meet this $21.4 billion target.

The Evolution of Japan's Aid Policy

Japan's foreign aid policy has changed dramatically during the past two decades, developing from a position that linked aid to export promotion and

overseas investment to its current policy that takes both humanitarian and political/security considerations into account. Aid policymakers generally identify several distinct phases of this evolution: war reparations, from the mid-1950s to 1965; tied aid to promote exports, particularly to Southeast Asia, from the mid-1950s through the early 1970s; an ambitious effort to improve ODA performance through the untying of assistance; and from the late 1970s to the present, the emergence of a policy that emphasizes meeting basic human needs in developing countries and countries located in regions of strategic importance to the Western alliance.

William L. Brooks and Robert M. Orr Jr., in their study of Japan's foreign aid policy, suggest that Tokyo's aid program grew directly out of its role as a former colonial power, which explains why a consistently high percentage of funding has gone to the countries of Southeast Asia. This geographical bias is still apparent, with approximately 70 percent of ODA targeted to this region. Reparations negotiations between Japan and the Southeast Asian nations provided $500 million to the Philippines and $400 million to Indonesia over a 20-year period, $20 million to Burma for ten years, and special compensation to Thailand. In sum, reparations totaled a relatively modest $1 billion over a 20-year period, or less than 2 percent of Japan's national budget over this time -- outlays that yielded significant economic benefits since the aid provided was by and large tied to procurement in Japan.

During this period, however, Japan viewed itself as a developing country and was quite open about its intent to cultivate export markets as well as secure access to raw materials. Throughout the 1960s, when the Japanese economy grew by approximately 10 percent a year, export credits and private aid still constituted an estimated 65 percent of Japan's total aid flows. In part as a result of international criticism of this heavily tied assistance -- and in view of Japan's rapidly emerging global economic leadership -- Tokyo sought to improve the quality and regional distribution of its aid. By the latter part of the 1970s, it led other major donors in the untying of assistance. Shaken by the first oil crisis, Tokyo also recognized the importance of dispersing aid to countries outside of its traditional sphere, and began targeting more assistance to some of the countries of the resource-rich Persian Gulf.

The most recent stage in the evolution of Japan's aid policy began in 1977, when it embarked on its first ODA-doubing plan. A key factor in this decision was the growing body of opinion that Japan should make a concerted effort to carve out an appropriate world leadership role. Since Tokyo, for constitutional reasons, has concentrated its military efforts on self-defense, the development area is a politically palatable alternative. Then, too, the Japanese economic success story serves as a role model for other developing nations.

Between 1977 and 1980 the government exceeded its aid-doubling goal, bringing aid to a level of $3.3 billion. It also substantially increased the grant and technical assistance elements of its aid. Grants rose to 77.7 percent in 1979, which, although far below the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC)

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average that year of 90.7 percent, was nevertheless a significant increase when compared to 1977's 70.2 percent. The percentage of ODA to gross national product (GNP) rose to 0.32 percent in 1980, but was still below the DAC average of 0.37 percent.

Tokyo also continued to broaden its regional disbursements. In 1973, for example, 88 percent of ODA funds went to Asia, while only 2.6 percent went to Africa and 1 percent to the Middle East. By 1977, this distribution had shifted; Asia received 60 percent, Africa 17.1 percent and the Middle East 12.4 percent. In 1980, Tokyo devised its so-called 7-1-1-1 formula: 70 percent of development aid to Asia, with the rest divided fairly equally among the countries of Africa, Latin America and the Middle East. In general, it adhered to this format fairly consistently in subsequent years.

Concurrently, Japan began to espouse the concept of comprehensive security. The idea first emerged in 1980 in a report commissioned by former Prime Minister Masayoshi Ohira recommending a comprehensive approach to national security based on long-term strategies for defense, energy and food problems. Brooks and Orr contend that conceptualization of this theory and the paramount importance attached to aid was no doubt accelerated by Vietnam's invasion of Cambodia in 1979, oil shortages related to the Iranian revolution, and Moscow's occupation of Afghanistan. Japanese policymakers appeared to reason that prudent expansion of ODA to strategically important countries -- particularly those that supply key raw materials -- would promote stability and discourage domestic discord.

The Ohira report proposed that defense policy combine military and non-military measures. Thus, in early 1981 it was announced that a second consecutive ODA-doubling plan would become the pillar of comprehensive security measures, reflecting Japan's willingness to play a greater role as a member of the western world. "Economic cooperation according to (Japan's) economic capacity" was advanced in conjunction with Tokyo's commitment to continue to expand and qualitatively improve its self-defense capabilities.

Progress Under the 1981-85 Plan

Since 1981, Japan has earmarked $9.95 billion for aid, which is not quite halfway to its target of $21.4 billion by 1985. As early as 1982, however, aid officials suspected that the goal might be difficult to attain. Although the original plan envisaged an average 8.7 percent annual growth in ODA, Tokyo disbursed $3.17 billion in 1981, about 4.1 percent below the $3.3 billion of 1980. The $3.02 billion spent in 1982 was no better, falling 4.7 percent below year-earlier figures. Last year's substantial 24.4 percent hike ended this two-year decline and brought Japan's foreign economic assistance to a record 0.33 percent of the country's gross national product. Although this percentage of GNP still lags behind the DAC average of 0.36 percent, the overall level of disbursements elevated Japan to the number-three spot among major aid donors.

The 9.7 percent increase in the fiscal 1984 budget for ODA and the Finance Ministry-proposed 11.4 percent increase for fiscal 1985 will make attainment of the doubling plan very difficult, although the Foreign Ministry

has repeatedly emphasized that the government remains committed to the $21.4 billion target and will make its best efforts to realize this objective.

Tokyo's fiscal austerity policy poses a formidable obstacle to the aid-doubling effort. In order to reduce the huge budget deficit, line items have generally been held to zero growth; the rate of increase in the general account in the fiscal 1984 budget was 0.5 percent. ODA and defense spending, however, have been treated as exceptions, permitting a 9.7 percent hike in development assistance, the largest increase in the budget. In fiscal 1983, ODA also recorded the largest advance -- 8.9 percent. While noteworthy in light of the cutbacks in domestic budget outlays, this still leaves a not insignificant $11.5 billion gap for the government to close by next year if it is to attain the aid-doubling target. The very fact that aid has consistently been exempted from the budget ceilings, however, demonstrates that Tokyo is determined to play a development role more commensurate with its international economic prowess.

The traditionally tight-fisted Finance Ministry is not solely responsible for slowing the pace of the doubling plan, however. Aid authorities point out that unexpected changes in exchange rates have placed additional strains on an already difficult task. When the doubling commitment was made in 1981, the yen was trading at 220 to the dollar; during the next two years, it plummeted as low as 270 yen to the dollar. ODA disbursements in 1982 actually increased by 7.7 percent in yen terms, but showed a 4.7 percent decrease in dollar terms, as the yen depreciated approximately 13 percent that year.

The doubling plan has also been beset by continuing disagreements among major donors about funding levels for multilateral institutions, including the United Nations agencies and the World Bank. Since the 1960s, Japan has maintained a record of contributions to the multilateral agencies that was somewhat better than the DAC average. In 1977, multilateral assistance as a percentage of ODA was 36.9 percent, compared with a DAC average of 31.4 percent. Tokyo's multilateral contributions in 1982, however, constituted only 22 percent of total ODA, due at least in part to the U.S. decision to reduce or delay its contributions to the multilateral development banks. Since the major donors provide funds according to a formula that is pegged to the contributions of the United States, Washington's decision determines the amount of money available to developing countries.

Last year, Tokyo increased its multilateral ODA by 103.6 percent. This jump, Foreign Ministry officials explain, is attributable to the 1982 stalemate. While it is true that the Japanese government wanted to increase multilateral lending, its payments and contributions vary from year to year according to the outcome of the negotiations on capital increases. Thus, 1982's series of deadlocks over the International Development Association (IDA) and the World Bank replenishments held up Japan's contributions to these organizations, and last year's sharp increase simply compensated for the lag of the previous year.

Nature and Regional/Sectoral Focus of ODA

For the first three years of the latest doubling plan, Japan has maintained its 7-1-1-1 formula, with 30 to 35 percent of total ODA going to the

five Association of Southeast Asian (ASEAN) nations. This trend can be expected to continue. Tokyo has also targeted more aid to countries of strategic importance in accordance with the concept of comprehensive security. According to American sources, Washington initially recommended that Japan increase its aid to the Middle East, focusing on the oil-producing countries, and to southern Africa, with its rich deposits of uranium, cobalt and nickel. The United States has also reportedly urged that more priority be given to countries that are important to East-West relations. Accordingly, Tokyo has expanded its contributions to Egypt, Turkey, Bangladesh and Pakistan, although U.S. sources acknowledge that some of these disbursements were not up to the levels proposed by the Reagan administration. Japan's regional emphasis should not be totally denigrated, however. In 1982 and 1983, China was the chief recipient of assistance, receiving $368.8 million and $350.15 million, respectively, and strategically important countries such as Egypt, Pakistan, India and Bangladesh were also among the top ten beneficiaries.

Development of public utilities is the main focus of Japan's aid efforts, accounting for between 46 and 47 percent of total ODA. Industry, mining and construction are next, with 11.9 percent of total ODA in 1983, and agriculture third at 10.35 percent. It is important to note, however, the significant increases recorded in the categories of social infrastructure and education (550.5 percent and 96.2 percent, respectively, in 1983). Greater emphasis on these two sectors reflects one aspect of Tokyo's strategy for helping resolve the international debt problem. The Japanese government believes that the fundamental solution to the debt crisis lies in the revitalization of the world economy. Moreover, considering the size of the accumulated debt and the fact that a large part of it is privately borrowed, Tokyo contends that extending ODA is no solution to developing countries' financial problems in the immediate future. Rather, the Foreign Ministry says, "ODA (should) work as a long-term solution to the international debt problem by improving economic and social welfare to increase the productivity of developing countries, and thus indirectly (contribute) to the revitalization of the world economy."

In the case of low-income countries that rely almost exclusively on ODA flows for development needs, Tokyo has placed more emphasis on providing grant aid and debt-relief assistance through multilateral organizations. Grants as a percentage of total ODA did indeed increase significantly between 1982 and 1983, rising from 39.8 percent to 55.2 percent. However, the grant element of Japan's ODA still hovers under 80 percent, so the terms of its loans are somewhat tighter than those of other donors. (In 1978, the OECD set a goal of 86 percent for the grant component; 100 percent would be an outright grant with no restrictions.)

Prospects for Japan's Foreign Aid Programs

The Ministry of Foreign Affairs has requested a 21 percent increase for the ODA budget in fiscal 1985 to enable Japan to meet its doubling commitment, although the Finance Ministry set the official budget ceiling at only 11.4 percent. In view of the fact that this ceiling still has to be approved by the cabinet and the Diet, there is some room for re-slicing the pie.

Aside from budget numbers, Tokyo's aid program has grown qualitatively as well. Grants as a percentage of total ODA have continued to improve, as has the quality of these grants. In recent years there have been efforts to

fine-tune the overall foreign assistance effort through careful program evaluation to see how and whether these various projects are being implemented as originally envisaged.

Also indicative of Tokyo's commitment to development assistance is its continued interest in collaboration with the United States. According to U.S. observers, during times of heightened tensions over the bilateral trade imbalance and defense spending, both sides have welcomed this non-contentious subject. Aside from improving political ties in the developing world, Washington views collaboration with Japan as a means of extending its financial resources to increase the net benefit of its development assistance, rather than concentrating on a few limited projects. Tokyo seeks the positive political payoffs as well, but also looks to joint cooperation as a means of avoiding duplicative efforts and realizing more complementarity in aid programs with another major donor.

To date, the United States and Japan have collaborated on two projects: a dry-land agricultural center in northeastern Thailand and a smaller project in Tonga in the South Pacific. Under discussion is an agricultural university in Pakistan, which would involve complementary assistance. That is, Japan would construct the facilities (for example) and the United States would provide books and teachers. According to the State Department, in aid discussions last February, Washington asked Japan to examine a rural electrification project in Bangladesh supported by Finland and Kuwait as well as the United States. U.S. participants have also asked Tokyo to cooperate on an agricultural project in Indonesia where Japan's expertise in rice cultivation would be applicable, and in the Philippines on programs involving upland agriculture, energy and population. These proposals will undoubtedly appear on the agenda of the next working-level meeting.

The fact that joint cooperation in development assistance has proceeded at a comparatively measured pace does not necessarily reflect flagging interest. Rather, collaboration of this sort requires a special combination of factors. In addition to the difficulties of forging a consensus between the donors, the recipients themselves must also be amenable to the strategy being implemented. Experience has shown that to reach this agreement often takes considerable time and effort.

Despite the hurdle Japan faces in completing its 1981-85 doubling plan, Tokyo's foreign assistance effort is frequently referred to in OECD publications and other multilateral aid fora as a bright spot during a time when many donors are reneging on their commitments. The fact that Prime Minister Nakasone played such an active role at the London economic summit in June in consolidating views on the global debt crisis may well foreshadow the kind of forward-looking leadership Japan will demonstrate when it chairs the upcoming World Bank/International Monetary Fund meeting in Washington.

For further information, contact Barbara Wanner.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1

Total Net Flow of Financial Resources from Japan to Developing Countries and Multilateral Agencies, 1982-83

(in millions of dollars)

Type of Transaction	1982	1983	Percent Change 1982/83
I. Official Development Assistance (ODA)	$3,023.3	$3,761.0	24.4%
Change Over Previous Year	-4.7%	24.4%	
As Percentage of GNP	0.28%	0.33%	
A. Bilateral Assistance	2,367.3	2,425.2	2.4
1. Grants	805.2	993.4	23.4
Grant Assistance	412.3	535.1	29.8
Technical Assistance	392.9	458.3	16.6
2. Development Lending and Capital	1,562.1	1,431.8	-8.3
B. Grants, Capital Subscription and Loans to Multilateral Agencies	656.0	1,335.8	103.6
II. Other Official Flows	2,913.7	1,954.3	-32.9
A. Export Credits (over 1 year)	849.5	472.1	-44.4
B. Direct Investment Finances and Others	2,094.9	1,441.5	-31.2
C. Transactions with Multilateral Agencies at Market Terms	-30.7	40.7	
III. Private Flows	2,928.5	2,918.0	-0.4
A. Direct Investments	363.5	432.8	19.1
B. Export Credits (over 1 year)	-1,762.3	-2,068.6	
C. Other Bilateral Securities and Claims	2,798.8	2,338.9	-16.4
D. Multilateral Private Flows	1,528.5	2,214.9	44.9
IV. Grants by Voluntary Agencies	23.3	29.7	27.5
Total Official and Private Flows (I + II + III + IV)	8,888.8	8,663.0	-2.5
Change Over Previous Year	27.3%	-2.5%	
As Percentage of GNP	0.84%	0.75%	
For Reference			
Export Credits (total)	-912.9	-1,596.5	
Direct Investments and Others (total)	2,458.4	1,874.3	-23.8

Notes: 1. Net disbursement basis.
2. The figures do not necessarily add up to the totals, due to rounding.

Source: Ministry of Foreign Affairs, August 8, 1984

Table 2

Grant Element of Japan's Official Development Assistance, 1979-83

	1979	1980	1981	1982	1983
Average Grant Element of Bilateral Loans	54.6%	56.1%	56.4%	57.2%	54.3%
Grant Element of Total ODA	77.7	74.3	75.3	74.2	79.5
Grants as Percent of Total ODA	50.0	40.0	43.6	39.8	55.2

Notes: 1. Commitment basis.
2. Debt relief is included.

Source: Ministry of Foreign Affairs

Table 3

Japan's Official Development Assistance by Region, 1981-83

(in millions of dollars)

Year	Total	Asia	Middle East	Africa	Latin America	Europe	Oceania	Unallocable
1981	$2,260 (100.0%)	$1,605 (71.0%)	$190 (8.4%)	$210 (9.3%)	$176 (7.8%)	-$2 (-0.1%)	$19 (0.9%)	$62 (2.7%)
1982	$2,367 (100.0%)	$1,624 (68.6%)	$194 (8.2%)	$268 (11.3%)	$184 (7.8%)	-$3 (-0.1%)	$23 (1.0%)	$77 (3.2%)
1983	$2,425 (100.0%)	$1,614 (66.5%)	$201 (8.3%)	$261 (10.8%)	$241 (9.9%)	-$2 (-0.1%)	$18 (0.7%)	$93 (3.8%)

Notes: 1. Net disbursement basis.
2. Figures in parentheses indicate percentage share.

Source: Ministry of Foreign Affairs

Table 4

Sectoral Distribution of Japan's Official Development Assistance, 1982-83

(in millions of dollars)

	1982	1983	Percent Change 1982/83	Percent Distribution 1982	Percent Distribution 1983
Planning and Public Administration	$18.10	$11.62	-35.8%	0.50%	0.33%
Development of Public Utilities	1,679.92	1,652.91	-1.6	46.55	47.45
Agriculture	379.28	360.34	-5.0	10.51	10.35
Industry, Mining and Construction	481.05	414.57	-13.8	13.33	11.90
Trade, Banking, Tourism and Services	32.87	35.44	7.8	0.91	1.02
Education	110.13	216.04	96.2	3.05	6.20
Health	137.91	129.11	-6.4	3.82	3.71
Social Infrastructure and Welfare	19.93	129.64	550.5	0.55	3.72
Multi-Sector	15.78	85.89	444.3	0.44	2.47
Unspecified	78.85	51.37	-34.9	2.18	1.47
Contributions Not Allocable by Sector (commodity loans, food aid, debt relief, others)	655.16	396.24	-39.5	18.15	11.38
Total	3,608.98	3,483.17	-3.5	100.00	100.00

Note: Commitment basis.

Source: Ministry of Foreign Affairs

Table 5

Official Development Assistance of Major Donor Countries, 1983

(in millions of dollars)

Rank	Country	Amount	Percent of Total DAC ODA 1983	Percent of Total DAC ODA 1982
1	United States	$7,950	28.9%	29.7%
2	France	3,915	14.2	14.3
3	Japan	3,761	13.7	10.8
4	West Germany	3,181	11.6	11.3
5	United Kingdom	1,601	5.8	6.4
6	Netherlands	1,429	5.2	5.3
	Other Donors	5,697	20.6	22.2
DAC Total		27,534	100.0	100.0

Source: Ministry of Foreign Affairs

Table 6

Official Development Assistance of DAC Countries, 1982-83

(in millions of dollars)

		1983		1982		Percent
Rank*	Country	Amount	Percent of GNP	Amount	Percent of GNP	Change 1982/83
1	Norway	$584	1.06%	$559	0.99%	4.5%
2	Netherlands	1,195	0.91	1,472	1.08	-18.8
3	Sweden	779	0.88	987	1.02	-21.1
4	France**	3,915	0.76	4,034	0.75	-3.0
5	Denmark	394	0.72	415	0.76	-5.1
6	Belgium	477	0.59	499	0.59	-4.4
7	Australia	753	0.49	882	0.57	-14.6
8	West Germany	3,181	0.49	3,152	0.48	0.9
9	Canada	1,429	0.45	1,197	0.41	19.4
10	United Kingdom	1,601	0.35	1,800	0.37	-11.1
11	Finland	153	0.33	145	0.30	5.5
12	Japan	3,761	0.33	3,023	0.28	24.4
13	Switzerland	318	0.31	252	0.25	26.2
14	New Zealand	61	0.29	65	0.28	-6.2
15	United States	7,950	0.24	8,202	0.27	-3.1
16	Italy	826	0.24	811	0.24	1.8
17	Austria***	157	0.23	235	0.35	-33.2
DAC Total		27,534	0.36	27,730	0.38	-0.7

*Countries are ranked by ODA as percentage of donor GNP in 1983.
**Including overseas territories and prefectures.
***1982 figures include estimated volume of concessionary export dredits on a net disbursement basis.

Source: Ministry of Foreign Affairs /0

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